

Message Text

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DRAFTED BY: EB/FTD:AJWILLIAMS

APPROVED BY: EB/FRD:MBSMITH

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C O N F I D E N T I A L STATE 252528

E.O. 11652: GDS

TAGS:ETRD, HK, KS, SN

SUBJECT: ROK/US BILATERAL TEXTILE UNDERSTANDINGS

1. IN NEGOTIATIONS WITH ROK REASON FOR CHANGING THE
FACTORS AND UNITS OF MEASURE FOR KNIT SUITS AND KNIT COATS
AND JACKETS WAS TO MAKE THEM COMPATIBLE WITH THE HONG

KONG AGREEMENT. FUNDAMENTAL INTENT WAS TO REDUCE POTENTIAL
KNIT SUIT EXPORTS. IN END, WE ACCEPTED THAT THE CHANGE,
WHICH WAS CLEARLY UNDERSTOOD BY ROK, IN THE SYE CONVERSION
FACTOR WOULD RESULT IN SUIT LEVELS SHOWING SOME DECREASE,
OR AT MOST ONLY SLIGHT INCREASE FOR FIRST YEAR AND THE
COAT/JACKET LEVELS REMAINING THE SAME. THE 40 PERCENT
REDUCTION COUPLED WITH THE FACT THAT THE SUIT LEVEL WAS
CHANGED FROM CONSULTATION TO SPECIFIC LEVEL BUT ALLOWS
FLEXIBILITY INHERENT IN SPECIFIC LIMITS, IS EXPECTED TO
RESULT IN AN OVERALL ACTUAL REDUCTION OVER THE LIFE OF THE
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AGREEMENT DUE TO THE LEVEL FREEZE.

2. A REVIEW OF THE MOU REVEALS VERY SERIOUS TECHNICAL ERROR, IN THE SWITCH FROM POUNDS TO NUMBERS AND DOZENS RESULTED IN 291 PERCENT INCREASE IN FIRST YEAR LEVEL FOR KNIT SUITS AND A 373 PERCENT INCREASE IN FIRST YEAR

LEVEL FOR KNIT COAT/JACKET. OBVIOUSLY, THIS WAS NOT INTENTION OF US OR THE KOREANS.

3. DUE TO CONTINUED PRESSURES IN US HIGHLIGHTED BY RECENT DEMONSTRATIONS BY AACW, WE MUST CORRECT THE MOU BEFORE THE FINAL DOCUMENT IS SIGNED.

4. REGARDING THE SUITS, CORRECTION CAN BE MADE IN EITHER OF TWO DAYS. IF KOREA IS NOT OBSESSED WITH USING THE HONG KONG FACTOR, 4.5 SQUARE YARDS PER NUMBER, WE CAN GO WITH GAREL/SMITH IDEA PER TELCON OF HAVING THE U/M "NOS." CHANGED TO "LBS." IN PARAGRAPH 9(B) AND THAT PART OF ANNEX B THAT PERTAINS TO CATEGORY 224 (KNIT SUITS). THIS WOULD WASH THE 40 PERCENT SQUARE YARDS EQUIVALENT REDUCTION AND MAKE THE LEVEL 1,333,333 POUNDS, OR ABOUT

4 PERCENT MORE THAN THE CURRENT LEVEL OF 1,282,051 POUNDS.

5. AN ALTERNATIVE WAY OF CORRECTING THIS ERROR WOULD BE TO DETERMINE A KNIT SUIT LEVEL IN NUMBERS WHICH WOULD PRODUCE A 4 PERCENT INCREASE OVER THE CURRENT LEVEL AND KEEP THE FACTOR OF 4.5 SYE PER NUMBER AS STATED IN THE MOU (THE CURRENT SUIT LEVEL IS 457,875 NO., I.E. 1,282,051 LBS. AT 2.8 LBS. PER SUIT). THIS WOULD REQUIRE NO CHANGE TO PARA 9(B) OF THE MOU BUT WOULD REVISE THE NOS. AND SYE'S IN ANNEX B TO READ 476,190 NOS. (457,875 X 1.04) AND 2,142,855 SYE (476,190 X 4.5).

6. ON THE COATS/JACKETS, WE CAN EITHER USE THE 41.25 SYDS. PER DOZ. HK FACTOR AND REDUCE THE SYE FROM 6,000,000 TO 1,609,000 (41.25 SYDS/DZ TIMES 39,008 DZ) OR STAY WITH THE CURRENT FACTOR OF 7.8 LBS. PER SYE. EITHER WAY, THE LEVEL IN ACTUAL TRADE TERMS WOULD BE EXACTLY THE SAME AS IN THE CURRENT AGREEMENT.

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7. IN VIEW OF THE ABOVE, GAREL AND SMITH REQUESTED TO RETURN HOME VIA SEOUL TO DISCUSS SITUATION WITH KIM DONG WHIE.

8. AMERICAN EMBASSY SEOUL REQUESTED TO ADVISE KIM DONG WHIE THAT SERIOUS TECHNICAL ERROR RELATIVE TO SUITS HAS BEEN MADE AND SMITH AND GAREL GOING TO KOREA TO DISCUSS.

AT LAST DISCUSSION, BOTH PARTIES AGREED THAT TECHNICAL ERRORS WOULD BE REVIEWED AND CORRECTED. WE BELIEVE THIS COMES UNDER THAT AGREEMENT. AMERICAN EMBASSY SEOUL REQUESTED TO ASSIST IN EVERY WAY POSSIBLE IN THIS EXTREMELY SENSITIVE AND IMPORTANT MATTER. GAREL/SMITH

REQUESTED TO ADVISE SEOUL ASAP ON TRAVEL PLANS.

9. OTHER POINTS FOR DISCUSSION WITH ROK BY US DEL AND POSSIBLE REVISIONS TO THE MOU ARE:

PARA 4. THE METHODOLOGY FOR CALCULATING GROUP LIMITS, REFERRED TO IN ANNEX A., IS NOT INCLUDED IN THIS PARAGRAPH.

PARA 5. THE LAST CLAUSE OF (II) SHOULD BE MOVED TO (I), I.E., "EXCEPT FOR THE FIRST AGREEMENT YEAR WHEN CARRYOVER SHALL BE LIMITED TO 5 PERCENT."

ANNEX A (1) THE FIRST PARAGRAPH IMPLIES THAT NO CURRENT

SPECIFIC LEVELS WILL BE DROPPED.

(2) THE FOOTNOTE FOR CAT. 50/51 INDICATES A LEISURE SUIT ARRANGEMENT SIMILAR TO HONG KONG'S. THERE IS NO PROVISION FOR THIS IN THE MOU.

ALSO THE MOU HAS NO PROVISION, WHICH IS IN THE HK AGREEMENT, COVERING CATEGORY 224 COUNTERPART PRODUCTS CONVERTIBLE IN DOZENS IN CATEGORIES 225-240. WE BELIEVE THIS WAS DISCUSSED AND AGREED TO, AT LEAST ON A ONE-YEAR TRIAL BASIS. US DEL SHOULD CLARIFY WITH ROK, BEING AS FLEXIBLE AS POSSIBLE TO THEM IF RESOLUTION OF

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SUIT PROBLEM IS IN HAND.

PLEASE INFORM US SOONEST ON PROGRESS DISCUSSIONS. KISSINGER
UNQTE INGERSOLL

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